

South Davis Water District

**Financial Statements and
Independent Auditors' Report**

December 31, 2005 and 2004

SOUTH DAVIS WATER DISTRICT

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**Haynie &
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INDEPENDENT AUDITORS' REPORT

To the Chairman and Board of Trustees
South Davis Water District:

We have audited the accompanying basic financial statements of the **South Davis Water District** (the District) as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the **South Davis Water District's** management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **South Davis Water District** as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006 on our consideration of **South Davis Water District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of South Davis Water District. The combining and individual fund statements, additional information schedules, and the financial highlights listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of South Davis Water District. These schedules are the responsibility of the District's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Haynie & Company

Salt Lake City, Utah
February 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following is a discussion and analysis of South Davis Water District's financial performance providing an overview of the District's financial activities for the year ended December 31, 2005. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The assets of the District exceeded its liabilities as of the close of the most recent year by \$2,863,675.

The District's total net assets decreased by \$106,485.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are proprietary funds.

Proprietary funds

The District uses an enterprise fund to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes are part of the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District.

Financial statement analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,863,675 at the close of the most recent fiscal year.

South Davis Water District's Net Assets

	2005	2004	2003
Current and other assets	\$ 889,586	\$ 976,254	\$ 1,057,257
Capital assets	2,115,107	2,121,313	2,093,940
Total assets	3,004,693	3,097,567	3,151,197
Current and other liabilities	39,650	31,141	42,254
Long-term liabilities	101,368	96,266	93,508
Total liabilities	141,018	127,407	135,762
Fund net assets:			
Invested in capital assets, net of related debt	2,115,107	2,121,313	2,093,940
Unrestricted	748,568	848,847	921,495
Total unrestricted fund net assets	\$ 2,863,675	\$ 2,970,160	\$ 3,015,435

The largest portion of the District's net assets (74%) reflects its investment in capital assets (e.g. land, buildings, water systems, equipment, and water rights), less any related debt used to acquire those assets that is still outstanding. Resources needed to repay capital-related debt must be provided from other sources.

The remaining balance of unrestricted net assets (26%) may be used to meet the District's obligations to customers, employees, and creditors.

At the end of the fiscal year, the District is able to report positive balances in all categories of net assets.

	2005	2004	2003
Revenues:			
Operating revenues	\$ 557,791	\$ 567,262	\$ 560,813
Revenues from tax assessments	92,994	107,990	95,414
Interest income on investments	21,667	13,153	16,532
Other	4,144	75	566
Total revenues	676,596	688,480	673,325
Expenses:			
Operating expenses	783,081	733,754	734,354
Change in net assets	(106,485)	(45,274)	(61,029)
Net assets - beginning of year	2,970,160	3,015,434	3,076,464
Net assets - end of year	<u>\$ 2,863,675</u>	<u>\$ 2,970,160</u>	<u>\$ 3,015,435</u>

Financial Highlights - Culinary Water System
For the Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Revenue from water sales	\$ 397,967	\$ 406,098	\$ 409,932
Total other operating and other income	98,906	116,844	96,682
Net (loss)	(113,490)	(40,578)	(53,783)
Working capital at end of year	521,139	623,999	710,264
Property and equipment, at cost (including water rights)	3,031,015	3,001,019	2,870,459
Net assets:			
Unrestricted net assets	\$ 419,771	\$ 527,733	\$ 640,334

Financial Highlights - Irrigation Water System
For the Years Ended December 31, 2005, 2004, and 2003

	2005	2004	2003
Revenue from water sales	\$ 141,735	\$ 140,379	\$ 139,605
Total other operating and other income	37,988	25,159	27,106
Net income (loss)	7,005	(4,696)	(7,246)
Working capital at end of year	328,797	321,114	304,739
Property and equipment, at cost (including water rights)	1,476,234	1,475,724	1,451,099
Net assets			
Unrestricted net assets	\$ 328,797	\$ 321,114	\$ 281,161

The District's net assets decreased by \$106,485. Key elements of this decrease are as follows:

Operating revenues decreased by \$9,471 due to the decrease in water delivered and rate charges.

Property taxes decreased by \$14,996 due to an decrease in assessing and collecting of property taxes.

Increases in operating expenses of \$49,327 are closely paralleled by inflation and growth in the demand for services, and interest earnings have increased by \$8,514 due to higher interest rates.

Capital Assets

The District's investment in capital assets, as of December 31, 2005, amounts to \$2,115,107 (net of accumulated depreciation). This investment in capital assets includes the water system, administrative buildings and equipment, aqueduct rights and privileges, and water rights stock.

Major capital asset events during the current fiscal year included the following:

Investments in water system and lines of \$54,066.

Decrease in work equipment of \$30,485.

South Davis Water District's Capital Assets (net of depreciation)

	2005	2004	2003
Land	\$ 51,419	\$ 51,419	\$ 51,419
Water rights	88,625	88,625	88,625
Water systems, lines, wells, reservoirs	507,515	553,110	524,635
Water system construction	1,220,997	1,216,493	1,199,139
Telemetry equipment	98,225	65,019	52,343
Buildings	95,731	106,563	113,370
Equipment	52,595	40,084	64,409
Total	<u>\$ 2,115,107</u>	<u>\$ 2,121,313</u>	<u>\$ 2,093,940</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of South Davis Water District's finances for all those with an interest. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the office of the District in care of the General Manager at P.O. Box 907, 407 West 3100 South, Bountiful, Utah 84011-0907.

South Davis Water District
Balance Sheets - Proprietary Fund

December 31	2005	2004
Assets		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 425,406	\$ 505,860
Certificates of deposit - over 90 days	319,755	315,280
Receivables:		
Water accounts	23,520	34,790
Davis County Treasurer, tax collections	9,009	11,437
Prepaid expenses:		
Advance payment on water	108,647	102,351
Other prepaid expenses	3,249	6,536
Total current assets	889,586	976,254
Noncurrent assets:		
Capital assets:		
Property, plant, and equipment	4,507,249	4,476,743
Accumulated depreciation	2,392,142	2,355,430
Capital assets, net	2,115,107	2,121,313
Total noncurrent assets	2,115,107	2,121,313
Total assets	\$ 3,004,693	\$ 3,097,567

See accompanying notes to financial statements

South Davis Water District
Balance Sheets - Proprietary Fund (continued)

December 31	2005	2004
Liabilities		
Current liabilities:		
Accounts payable	\$ 12,516	\$ 4,733
Wages and salaries payable	27,107	26,286
Other payables	27	122
Total current liabilities	39,650	31,141
Deferred compensation benefit	101,368	96,266
Total liabilities	141,018	127,407
Fund net assets:		
Invested in capital assets, net of related debt	2,115,107	2,121,313
Unrestricted	748,568	848,847
Total fund net assets	2,863,675	2,970,160
Total liabilities and fund net assets	\$ 3,004,693	\$ 3,097,567

See accompanying notes to financial statements

South Davis Water District

Statements of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund

For the years ended December 31	2005	2004
Revenues:		
Charges for services	\$ 539,702	\$ 546,477
Water connection fees	18,089	20,785
Total revenues	557,791	567,262
Operating expenses:		
Water purchased	102,351	96,181
Operating and administrative expenses	584,470	509,760
Depreciation and amortization	96,260	127,813
Total operating expenses	783,081	733,754
Operating income (loss)	(225,290)	(166,492)
Other revenues (expenses):		
General property taxes	92,994	107,990
Interest income on investments	21,667	13,153
Other non-operating revenue	60	75
Gain on sale of fixed assets	4,084	-
Total other revenues	118,805	121,218
Change in net assets	(106,485)	(45,274)
Net assets, beginning of year	2,970,160	3,015,434
Net assets, end of year	\$ 2,863,675	\$ 2,970,160

See accompanying notes to financial statements

South Davis Water District
Statements of Cash Flows - Proprietary Fund

For the years ended December 31	2005	2004
Cash flows from operating activities:		
Receipts from customers and users	\$ 569,061	\$ 586,704
Payments to suppliers of goods and services	(94,663)	(108,004)
Payments to employees and other operating cash payments	(581,556)	(517,783)
Net cash provided (used) by operating activities	(107,158)	(39,083)
Cash flows from non-capital financing activities:		
Property tax revenue	95,422	96,553
Other non-operating revenue	60	75
Net cash provided by non-capital financing activities	95,482	96,628
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(93,970)	(155,186)
Proceeds from the sale of capital assets	8,000	-
Net cash (used) by capital and related financing activities	(85,970)	(155,186)
Cash flows from investing activities:		
Certificates of deposit - over 90 days	(4,475)	(1,412)
Interest income on investments	21,667	13,153
Net cash provided by investing activities	17,192	11,741
Net increase (decrease) in cash and equivalents	(80,454)	(85,900)
Cash and equivalents, beginning of year	505,860	591,760
Cash and equivalents, end of year	\$ 425,406	\$ 505,860
Reconciliation of total operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (225,290)	\$ (166,492)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	96,260	127,813
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable, net	11,270	19,442
Prepaid expenses	(3,009)	(11,491)
Due from other funds	-	4,131
Increase (decrease) in liabilities:		
Accounts payable	7,783	(11,945)
Wages payable	821	944
Other payables	(95)	122
Accrued workers compensation insurance	-	(234)
Deferred compensation benefits	5,102	2,758
Due to other funds	-	(4,131)
Net cash provided (used) by operating activities	\$ (107,158)	\$ (39,083)

South Davis Water District

Notes to financial statements

Note 1 - Significant accounting policies

The South Davis County Water District was organized for the purpose of providing water service to culinary and irrigation customers in the southern part of Davis County. The District is not a component unit of another government, and it has no component units.

The financial Statements of the District are prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). The District's reporting entity applies all relevant Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements. The District is operated as a proprietary fund with two divisions (Culinary and Irrigation).

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes to the financial statements are organized to provide explanation, including disclosures of the District's financial activities for the years ending December 31, 2005 and 2004.

Presentation - The district has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. These statements require governmental entities with more than one governmental activity to present additional accrual-based statements to better communicate the financial status of the entity. The significant changes to the District's financial statements resulting from the adoption of these statements are the Management's Discussion and Analysis and the titles and presentation of the financial statements to conform to the net asset presentation. Certain balances have been restated, including the District's net assets, to conform to the GASB Statement No. 34 presentation.

The District reports its water production, storage, and distribution operations as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of accounting - The District is an enterprise fund and its records are maintained on the accrual basis of accounting. The District elected to follow all Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, except those that conflict with a GASB pronouncement, in accordance with GASB Statement No. 20.

Management estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments - Investments are stated at fair market value.

Cash and Cash Equivalents

The District maintains a cash and investment pool in which the two divisions share. Each division's portion of the pool is presented in its respective combined balance sheet as "Cash and cash equivalents". In addition, non-pooled cash and investments are separately held and presented in their respective divisions.

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amounts, which reasonably estimates fair value.

South Davis Water District

Notes to financial statements (continued)

Note 1 - Significant accounting policies (continued)

Capital assets - Property and equipment are stated at historical cost, including capitalized interest if applicable. Costs incurred for repairs and maintenance that do not extend the useful life of an asset are recorded as an expense in the statement of revenues, expenses, and changes in net assets. Additions, improvements, and betterments that provide future benefit are recorded as capital assets in the balance sheet. Depreciation has been provided using the straight-line method over estimated useful lives as follows:

Culinary water system:	
Water systems	15-50
Water system construction	50-60
Telemetering equipment	20-30
Buildings	10-40
Work equipment	5-10
Office furniture and equipment	5-10
Trucks	5
Irrigation water system:	
Water lines and wells	20-60
Reservoirs	65-75
Telemetering equipment	20-30
Buildings	10-40
Work equipment	5-10
Office furniture and equipment	5-10
Trucks	5

Property taxes - Property tax revenue is computed on the basis of amounts received for the current and prior years, plus the amount collected by the Davis County Treasurer but not distributed to the District at year end. Property tax revenue is collected and remitted by the Davis County Treasurer as an agent for the District.

Utah statutes establish the process by which taxes are levied and collected. Property taxes are assessed as of January 1 of the year in which they are due. September 1 is the levy date with a due date of November 30. Delinquent taxes are subject to a two percent penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at a rate equal to the federal discount rate; the interest period is from January 1 until the date paid. If in May of the fifth year the taxes remain delinquent, the County advertises and sells the property at a tax sale.

Comparative data and reclassifications - Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2 - Cash, cash equivalents, and investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of the District's funds in a qualified depository. The Act defines qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and that has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Cash and cash equivalents consisted of the following:

June 30	2005	2004
Unrestricted:		
Cash on deposit - demand	\$ 65,407	\$ 52,188
Total unrestricted cash and cash equivalents	65,407	52,188
Total cash and cash equivalents	\$ 65,407	\$ 52,188

South Davis Water District

Notes to financial statements (continued)

Note 2 - Cash, cash equivalents, and investments (continued)

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At various times the District may have balances with its banks that exceed Federally Insured limits (\$100,000 per depositor).

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard and Poor's; bankers' acceptances; obligations of the U.S. Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund. All investments held by the District at June 30, 2005 comply with the provisions of the Act.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses - net of administration fees of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The District had the following investments and maturities:

December 31		2005			
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Unrestricted:					
Investment in Utah PTIF	\$ 359,999	\$ 359,999	\$ -	\$ -	-
Certificates of deposit - over 90 days	319,755	319,755	-	-	-
Total unrestricted	679,754	679,754	-	-	-
Total investments	\$ 679,754	\$ 679,754	\$ -	\$ -	-
December 31		2004			
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Unrestricted:					
Investment in Utah PTIF	\$ 453,672	\$ 453,672	\$ -	\$ -	-
Certificates of deposit - over 90 days	315,280	315,280	-	-	-
Total unrestricted	768,952	768,952	-	-	-
Total investments	\$ 768,952	\$ 768,952	\$ -	\$ -	-

South Davis Water District

Notes to financial statements (continued)

Note 2 - Cash, cash equivalents, and investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

The District had the following investments and quality ratings:

December 31		2005			
Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Investment in					
Utah PTIF	\$ 359,999				\$ 359,999
Certificates of deposit - over 90 days	319,755	319,755			
Total investments	\$ 679,754	\$ 319,755	\$ -	\$ -	\$ 359,999

December 31		2004			
Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Investment in					
Utah PTIF	\$ 453,672	\$ -	\$ -	\$ -	453,672
Certificates of deposit - over 90 days	315,280	315,280			
Total investments	\$ 768,952	\$ 315,280	\$ -	\$ -	453,672

Note 3 - Capital assets

Capital asset activity for the year ended December 31, 2005 is the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Culinary water system:				
Capital assets, not being depreciated:				
Land	\$ 14,431	\$ -	\$ -	14,431
Water rights	67,185	-	-	67,185
Total capital assets, not being depreciated	81,616	-	-	81,616
Capital assets, being depreciated:				
Water systems	213,701	-	-	213,701
Water system construction	2,248,724	41,751	-	2,290,475
Telemetry equipment	157,774	700	-	158,474
Buildings	102,950	211	-	103,161
Work equipment	108,900	10,711	25,948	93,663
Office furniture and equipment	27,133	3,107	-	30,240
Trucks	60,221	11,211	11,747	59,685
Total capital assets, being depreciated	2,919,403	67,691	37,695	2,949,399
Less accumulated depreciation	1,546,996	65,293	29,769	1,582,520
Total culinary water system	\$ 1,454,023	\$ 2,398	\$ 7,926	\$ 1,448,495

South Davis Water District

Notes to financial statements (continued)

Note 3 - Capital assets (continued)

Irrigation water system:

Capital assets, not being depreciated:

Land	\$	36,988	\$	-	\$	-	\$	36,988
Water rights		21,440		-		-		21,440
Total capital assets, not being depreciated		58,428		-		-		58,428

Capital assets, being depreciated:

Water lines and wells	825,268	12,277	-	837,545
Reservoirs	244,585	-	-	244,585
Telemetry equipment	83,480	700	-	84,180
Buildings	103,722	211	-	103,933
Work equipment	73,584	10,713	25,961	58,336
Office furniture and equipment	27,134	3,107	-	30,241
Trucks	59,523	11,210	11,747	58,986

Total capital assets, being depreciated	1,417,296	38,218	37,708	1,417,806
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Less accumulated depreciation	808,434	30,968	29,780	809,622
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Total irrigation water system	\$ 667,290	\$ 7,250	\$ 7,928	\$ 666,612
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Total Capital Assets	\$ 2,121,313	\$ 9,648	\$ 15,854	\$ 2,115,107
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Capital asset activity for the year ended December 31, 2004 is the following:

	Beginning Balance	Increases	Decreases	Ending Balance
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Culinary water system:

Capital assets, not being depreciated:

Land	\$	14,431	\$	-	\$	-	\$	14,431
Water rights		67,185		-		-		67,185
Total capital assets, not being depreciated		81,616		-		-		81,616

Capital assets, being depreciated:

Water systems	213,701	-	-	213,701
Water system construction	2,181,720	67,004	-	2,248,724
Telemetry equipment	97,972	59,802	-	157,774
Buildings	101,445	1,505	-	102,950
Work equipment	107,227	1,673	-	108,900
Office furniture and equipment	26,557	576	-	27,133
Trucks	60,221	-	-	60,221

Total capital assets, being depreciated	2,788,843	130,560	-	2,919,403
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Less accumulated depreciation	1,464,881	82,115	-	1,546,996
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Total culinary water system	\$ 1,405,578	\$ 48,445	\$ -	\$ 1,454,023
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Irrigation water system:

Capital assets, not being depreciated:

Land	\$	36,988	\$	-	\$	-	\$	36,988
Water rights		21,440		-		-		21,440
Total capital assets, not being depreciated		58,428		-		-		58,428

Capital assets, being depreciated:

Water lines and wells	817,830	7,438	-	825,268
Reservoirs	244,585	-	-	244,585
Telemetry equipment	70,044	13,436	-	83,480
Buildings	102,217	1,505	-	103,722
Work equipment	71,914	1,670	-	73,584
Office furniture and equipment	26,558	576	-	27,134
Trucks	59,523	-	-	59,523

Total capital assets, being depreciated	1,392,671	24,625	-	1,417,296
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Less accumulated depreciation	762,737	45,697	-	808,434
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Total irrigation water system	\$ 688,362	\$ (21,072)	\$ -	\$ 667,290
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Total Capital Assets	\$ 2,093,940	\$ 27,373	\$ -	\$ 2,121,313
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South Davis Water District

Notes to financial statements (continued)

Note 4 - Water Purchase Agreements

The culinary water contract with Weber Basin Conservancy District requires that the District make annual payments in advance for 360 acre feet of culinary water costing \$44,640 for 2006. The payment for 2006 water was made prior to December 31, 2005.

Payment in the amount of \$64,007 has been made to Weber Basin Conservancy District for irrigation water for 2006.

Note 5 - Pension Plans

Plan Description - The District participates in a Local Governmental Noncontributory Retirement System, which is for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

Funding Policy - In the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.09% of their annual covered salary for January through June 2005 and 11.09% of their annual covered salary for July through December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the System are authorized by statute and specified by the Board.

The District's contributions to the Local Governmental Noncontributory Retirement Systems for December 31, 2005, 2004, and 2003 were \$27,091, \$24,356, and \$21,091 respectively. The contributions were equal to the required contributions for each year.

The District offers its employees deferred compensation plans created in accordance with the Internal Revenue Code Sections 457 and 401(k) (the Plans). The Plans, administered by the Local Governmental Noncontributory Retirement Systems and available to all District employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or unforeseeable emergency.

The 457 Plan commenced in the year ended December 31, 2004. There were no employer contributions during the 2004 year, nor in the 2005 year. The employee contributions to the Plan for the year's ended December 31, 2005 and 2004 were \$12,600 and \$10,500 respectively.

The employer contributions to the 401(k) Plan for the years ended December 31, 2005, 2004, and 2003 were \$4,886, \$4,701, and \$4,604 respectively. The employee contributions to the Plans for the years ended December 31, 2005, 2004, and 2003 were \$26,733, \$33,167, and \$32,771 respectively.

The Plan is included in a publicly available financial report that includes financial statements and required supplementary information. A copy of the Systems' report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Note 6 - Insurance Coverage - Risks of Loss

Risks of loss are covered through a comprehensive general liability policy for public entities purchased by the District. This policy includes coverage as noted in the supplementary Schedule of Insurance Force.

There have been no reductions in insurance coverage from the prior year, and there have been no claims made against the insurance coverage during the past three years that have exceeded coverage.

The District self-insures for expenditures resulting from vehicle damage generally covered by collision and comprehensive insurance. Estimated expenditures for these claims are recorded at the time of the occurrence of any incident creating a loss based on repair estimates. These incidents do not create liabilities to third parties; accordingly, there are no liabilities for unpaid

Note 7 - Compensated Absences

It is the District's policy to grant employees vacation and sick leave. Employees are able to carry over vacation and 800 hours of sick leave to the next year. If there are any sick hours over 800, the District will buy back from the employee 25 cents to the dollar.

Upon retirement or resignation, employees may be paid a cash benefit equal to the number of vacation hours accrued up to a maximum amount, based upon the employee's current wage rate.

Upon retirement or resignation in good standing, employees with three years or more of service are paid a fixed percentage of their sick leave hours earned in excess of 300 hours.

To comply with the provisions of GASB No. 16, a liability for employees' accrued compensated absences has been reported. Since this liability will not be liquidated with current resources (expendable available financial resources), the liability has been reported as a long-term liability.

SUPPLEMENTAL SCHEDULES

SOUTH DAVIS WATER DISTRICT

Combining Balance Sheet

For the year ended December 31, 2005

	Total	Elimination	Culinary Water System	Irrigation Water System
Assets				
Current assets:				
Cash and cash equivalents - unrestricted	\$ 425,406	\$ -	\$ 164,293	\$ 261,113
Certificates of deposit - over 90 days	319,755	-	160,760	158,995
Receivables:				
Water accounts	23,520	-	23,324	196
Davis County Treasurer, tax collections	9,009	-	9,009	-
Due from Irrigation Water System	-	(155,095)	155,095	-
Prepaid expenses:				
Advance payment on water	108,647	-	44,640	64,007
Other prepaid expenses	3,249	-	2,977	272
Total current assets	889,586	(155,095)	560,098	484,583
Capital assets:	4,507,249	-	3,031,015	1,476,234
Less accumulated depreciation	2,392,142	-	1,582,520	809,622
Capital assets, net:	2,115,107	-	1,448,495	666,612
Total assets	\$ 3,004,693	\$ (155,095)	\$ 2,008,593	\$ 1,151,195
Liabilities and fund net assets				
Current liabilities:				
Accounts payable	\$ 12,516	\$ -	\$ 11,825	\$ 691
Wages and salaries payable	27,107	-	27,107	-
Other payables	27	-	27	-
Due to Culinary Water System	-	(155,095)	-	155,095
Total current liabilities	39,650	(155,095)	38,959	155,786
Deferred compensation benefit	101,368	-	101,368	-
Total liabilities	141,018	(155,095)	140,327	155,786
Fund net assets:				
Investment in capital assets, net of related debt	2,115,107	-	1,448,495	666,612
Unrestricted net assets	748,568	-	419,771	328,797
Total fund net assets	2,863,675	-	1,868,266	995,409
Total liabilities and fund net assets	\$ 3,004,693	\$ (155,095)	\$ 2,008,593	\$ 1,151,195

SOUTH DAVIS WATER DISTRICT

Combining Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended December 31, 2005

	Total	Culinary Water System	Irrigation Water System
Operating revenues:			
Charges for services	\$ 539,702	\$ 397,967	\$ 141,735
Water connection fees	18,089	7,888	10,201
Total operating revenue	557,791	405,855	151,936
Operating expenses:			
Water purchased	102,351	41,040	61,311
Operating and administrative expenses	584,470	504,030	80,440
Depreciation and amortization	96,260	65,293	30,967
Total operating expenses	783,081	610,363	172,718
Income (loss) from operations	(225,290)	(204,508)	(20,782)
Other revenues (expenses):			
General property taxes	92,994	79,045	13,949
Interest income on investments	21,667	9,871	11,796
Other non-operating revenue	60	60	-
Gain on sale of fixed assets	4,084	2,042	2,042
Total other income	118,805	91,018	27,787
Change in net assets	(106,485)	(113,490)	7,005
Net assets, beginning of year	2,970,160	1,981,756	988,404
Net assets, end of year	\$ 2,863,675	\$ 1,868,266	\$ 995,409

SOUTH DAVIS WATER DISTRICT

Combining Statement of Cash Flows

For the year ended December 31, 2005	Total	Culinary Water System	Irrigation Water System
Cash flows from operating activities:			
Receipts from customers and users	\$ 569,061	\$ 417,321	\$ 151,740
Payments to suppliers of goods and services	(94,663)	(33,857)	(60,806)
Payments to employees and other operating cash payments	(581,556)	(497,480)	(84,076)
Net cash provided (used) by operating activities	(107,158)	(114,016)	6,858
Cash flows from non-capital financing activities:			
Property tax revenue	95,422	81,473	13,949
Other non-operating revenue	60	60	-
Net cash provided by non-capital financing activities	95,482	81,533	13,949
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(93,970)	(61,723)	(32,247)
Proceeds from the sale of capital assets	8,000	4,000	4,000
Net cash (used) by capital and related financing activities	(85,970)	(57,723)	(28,247)
Cash flows from investing activities:			
Certificates of deposit - over 90 days	(4,475)	(1,057)	(3,418)
Interest income on investments	21,667	9,871	11,796
Net cash provided by investing activities	17,192	8,814	8,378
Net increase (decrease) in cash and equivalents	(80,454)	(81,392)	938
Cash and equivalents, beginning of year	505,860	245,685	260,175
Cash and equivalents, end of year	\$ 425,406	\$ 164,293	\$ 261,113
Reconciliation of total operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (225,290)	\$ (204,508)	\$ (20,782)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	96,260	65,293	30,967
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable, net	11,270	11,466	(196)
Prepaid expenses	(3,009)	(313)	(2,696)
Due from other funds	940	940	-
Increase (decrease) in liabilities:			
Accounts payable	7,783	7,278	505
Wages payable	821	821	-
Other payables	(95)	(95)	-
Due to other funds	(940)	-	(940)
Deferred compensation benefits	5,102	5,102	-
Net cash provided (used) by operating activities	\$ (107,158)	\$ (114,016)	\$ 6,858

SOUTH DAVIS WATER DISTRICT

Balance Sheets - Culinary Water System

December 31	2005	2004	Increase (Decrease)
Assets			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 164,293	\$ 245,685	\$ (81,392)
Certificates of deposit - over 90 days	160,760	159,703	1,057
Receivables			
Water accounts	23,324	34,790	(11,466)
Davis County Treasurer, tax collections	9,009	11,437	(2,428)
Due from Irrigation Water System	155,095	156,035	(940)
Prepaid expenses			
Advance payment on water	44,640	41,040	3,600
Other prepaid expenses	2,977	6,264	(3,287)
Total current assets	560,098	654,954	(94,856)
Property and equipment	3,031,015	3,001,019	29,996
Less accumulated depreciation	1,582,520	1,546,996	35,524
Property and equipment, net	1,448,495	1,454,023	(5,528)
Total assets	\$ 2,008,593	\$ 2,108,977	\$ (100,384)
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 11,825	\$ 4,547	\$ 7,278
Wages payable	27,107	26,286	821
Other payables	27	122	(95)
Total current liabilities	38,959	30,955	8,004
Deferred compensation benefits	101,368	96,266	5,102
Total liabilities	140,327	127,221	13,106
Fund net assets:			
Investment in capital assets, net of related debt	1,448,495	1,454,023	(5,528)
Unrestricted net assets	419,771	527,733	(107,962)
Total net assets	1,868,266	1,981,756	(113,490)
Total liabilities and net assets	\$ 2,008,593	\$ 2,108,977	\$ (100,384)

SOUTH DAVIS WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets - Culinary Water System

For the years ended December 31	2005	2004	Increase (Decrease)
Operating revenues:			
Charges for services	\$ 397,967	\$ 406,098	\$ (8,131)
Water connection fees	7,888	17,831	(9,943)
Total operating revenue	405,855	423,929	(18,074)
Operating expenses:			
Water purchased	41,040	37,440	3,600
Operating and administrative expenses	504,030	443,965	60,065
Depreciation and amortization	65,293	82,115	(16,822)
Total operating expenses	610,363	563,520	46,843
Income (loss) from operations	(204,508)	(139,591)	(64,917)
Other revenues (expenses):			
General property taxes	79,045	91,792	(12,747)
Interest income on investments	9,871	7,146	2,725
Other non-operating revenue	60	75	(15)
Gain on sale of fixed assets	2,042	-	(2,042)
Total other income	91,018	99,013	668
Change in net assets	(113,490)	(40,578)	72,912
Net assets, beginning of year	1,981,756	2,022,334	40,578
Net assets, end of year	\$ 1,868,266	\$ 1,981,756	\$ 113,490

SOUTH DAVIS WATER DISTRICT

Statements of Cash Flows - Culinary Water System

For the years ended December 31	2005	2004
Cash flows from operating activities:		
Receipts from customers and users	\$ 417,321	\$ 443,292
Payments to suppliers of goods and services	(33,857)	(49,124)
Payments to employees and other operating cash payments	(497,480)	(445,156)
Net cash provided (used) by operating activities	(114,016)	(50,988)
Cash flows from non-capital financing activities:		
Property tax revenue	81,473	80,355
Other non-operating revenue	60	75
Net cash provided by non-capital financing activities	81,533	80,430
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(61,723)	(130,560)
Proceeds from the sale of capital assets	4,000	-
Net cash (used) by capital and related financing activities	(57,723)	(130,560)
Cash flows from investing activities:		
Certificates of deposit - over 90 days	(1,057)	(760)
Interest income on investments	9,871	7,146
Net cash provided by investing activities	8,814	6,386
Net increase (decrease) in cash and equivalents	(81,392)	(94,732)
Cash and equivalents, beginning of year	245,685	340,417
Cash and equivalents, end of year	\$ 164,293	\$ 245,685
Reconciliation of total operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (204,508)	\$ (139,591)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	65,293	82,115
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable, net	11,466	19,363
Prepaid expenses	(313)	(8,790)
Due from other funds	940	4,131
Increase (decrease) in liabilities:		
Accounts payable	7,278	(11,806)
Wages payable	821	944
Other payables	(95)	122
Accrued workers compensation insurance	-	(234)
Deferred compensation benefits	5,102	2,758
Net cash provided (used) by operating activities	\$ (114,016)	\$ (50,988)

SOUTH DAVIS WATER DISTRICT

Balance Sheets - Irrigation Water System

December 31,	2005	2004	Increase (Decrease)
Assets			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 261,113	\$ 260,175	\$ 938
Certificates of deposit - over 90 days	158,995	155,577	3,418
Receivables			
Water accounts	196	-	196
Prepaid expenses			
Advance payment on water	64,007	61,311	2,696
Other prepaid expenses	272	272	-
Total current assets	484,583	477,335	7,248
Property and equipment	1,476,234	1,475,724	510
Less accumulated depreciation	809,622	808,434	1,188
Property and equipment, net	666,612	667,290	(678)
Total assets	\$ 1,151,195	\$ 1,144,625	\$ 6,570
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 691	186	\$ 505
Due to Culinary Water System	155,095	156,035	(940)
Total current liabilities	155,786	156,221	(435)
Fund net assets:			
Investment in capital assets, net of debt	666,612	667,290	(678)
Unrestricted net assets	328,797	321,114	7,683
Total fund net assets	995,409	988,404	7,005
Total liabilities and fund net assets	\$ 1,151,195	\$ 1,144,625	\$ 6,570

SOUTH DAVIS WATER DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets - Irrigation Water System

For the years ended December 31	2005	2004	Increase (Decrease)
Operating revenues:			
Charges for services	\$ 141,735	\$ 140,379	\$ 1,356
Water connection fees	10,201	2,954	7,247
Total operating revenue	151,936	143,333	8,603
Operating expenses:			
Water purchased	61,311	58,741	2,570
Operating and administrative expenses	80,440	65,795	14,645
Depreciation and amortization	30,967	45,698	(14,731)
Total operating expenses	172,718	170,234	2,484
Income (loss) from operations	(20,782)	(26,901)	6,119
Other revenues (expenses):			
General property taxes	13,949	16,198	(2,249)
Interest income on investments	11,796	6,007	5,789
Other non-operating revenue	-	-	-
Gain on sale of fixed assets	2,042	-	(2,042)
Total other income	27,787	22,205	3,747
Change in net assets	7,005	(4,696)	(11,701)
Net assets, beginning of year	988,404	993,100	4,696
Net assets, end of year	\$ 995,409	\$ 988,404	(7,005)

SOUTH DAVIS WATER DISTRICT

Statements of Cash Flows - Irrigation Water System

For the years ended December 31	2005	2004
Cash flows from operating activities:		
Receipts from customers and users	\$ 151,740	\$ 143,412
Payments to suppliers of goods and services	(60,806)	(58,880)
Payments to employees and other operating cash payments	(84,076)	(72,627)
Net cash provided (used) by operating activities	6,858	11,905
Cash flows from non-capital financing activities:		
Property tax revenue	13,949	16,198
Net cash provided by non-capital financing activities	13,949	16,198
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(32,247)	(24,626)
Proceeds from the sale of capital assets	4,000	-
Net cash (used) by capital and related financing activities	(28,247)	(24,626)
Cash flows from investing activities:		
Certificates of deposit - over 90 days	(3,418)	(652)
Interest income on investments	11,796	6,007
Net cash provided by investing activities	8,378	5,355
Net increase (decrease) in cash and equivalents	938	8,832
Cash and equivalents, beginning of year	260,175	251,343
Cash and equivalents, end of year	\$ 261,113	\$ 260,175
Reconciliation of total operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (20,782)	\$ (26,901)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	30,967	45,698
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable, net	(196)	79
Prepaid expenses	(2,696)	(2,701)
Increase (decrease) in liabilities:		
Accounts payable	505	(139)
Due to other funds	(940)	(4,131)
Net cash provided (used) by operating activities	\$ 6,858	\$ 11,905

SOUTH DAVIS WATER DISTRICT

Schedule of Insurance in Force

December 31, 2005

	<u>Expiration Date</u>	<u>Amount</u>
Insurance and Coverage		
Utah Local Government Insurance Trust	7/1/2006	
Policy Number PX809764		
Buildings and personal property \$1,000 deductible		\$ 860,658
Contents \$1,000 deductible		\$ 333,786
Contractors equipment \$1,000 deductible		\$ 105,244
Mobile equipment \$1,000 deductible		\$ 33,236
Utah Local Governments Insurance Trust	2/25/2006	
Policy Number 13810-GL253		
Comprehensive General Liability		
Policy for public entities, \$0 deductible		\$ 5,000,000
Coverage A-bodily injury liability		
Coverage B-personal injury liability		
Coverage C-property damage liability		
Coverage D-public officials' errors and omissions liability		
Automobile Liability		
Policy for public entities, \$0 deductible		\$ 5,000,000
Uninsured motorist		\$ 65,000
Underinsured motorist		\$ 50,000
Cincinnati Insurance Company		
Policy Number 846187	3/2/2006	
Fidelity bond, Secretary Treasurer		\$ 60,000
Western Surety Company	2/1/2006	
Bond Number 69835893		
Public employees blanket bond		\$ 50,000
Utah Local Governments Insurance Trust	1/1/2006	
Workmen's compensation insurance		\$ 500,000



**Haynie &
Company**

Certified Public Accountants (a professional corporation)

1785 West Printers Row Salt Lake City, Utah 84119 (801) 972-4800 Fax (801) 972-8941

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the Chairman and Board of Trustees
South Davis Water District:

We have audited the financial statements of the **South Davis Water District** (the District), as of and for the year ended December 31, 2005, and have issued our report thereon dated February 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Haynie & Company

Salt Lake City, Utah
February 10, 2006



**Haynie &
Company**

Certified Public Accountants (a professional corporation)
1785 West Printers Row Salt Lake City, Utah 84119 (801) 972-4800 Fax (801) 972-8941

**REPORT ON LEGAL COMPLIANCE APPLICABLE TO UTAH STATE LAWS
AND REGULATIONS**

To the Chairman and Board of Trustees
South Davis Water District:

We have audited the basic financial statements of the **South Davis Water District** (the District), for the year ended December 31, 2005, and have issued our report thereon dated February 10, 2006. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended December 31, 2005. The District received no major State assistance programs from the State of Utah.

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah *Legal Compliance Audit Guide* including:

Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other Compliance Requirements

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

Haynie & Company

Salt Lake City, Utah
February 10, 2006